

**Supporting Statement for the
International Applications and Prior Notifications
under Subparts A and C of Regulation K
(FR K-1; OMB No. 7100-0107)**

Summary

The Federal Reserve, under delegated authority for the Office of Management and Budget, proposes to extend, with minor revision, the International Applications and Prior Notifications under Subparts A and C of Regulation K (FR K-1; OMB No. 7100-0107). Subpart A of Regulation K governs the foreign investments and activities of member banks, Edge and agreement corporations¹, and bank holding companies (BHCs), and certain investments by foreign organizations. Subpart C of Regulation K governs investments in export trading companies. The FR K-1 reporting form contains the following eleven attachments for the application and notification requirements embodied in Subparts A and C of Regulation K:

- Attachment A: Notification to Establish Initial Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries or Application for Branches to Engage in New Activities
- Attachment B: Notification to Establish Additional Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries
- Attachment C: Application to Establish, Acquire, or Change Control of an Edge Corporation, or for an Edge Corporation to Engage in Certain Domestic Activities
- Attachment D: Model Articles of Association for an Edge Corporation
- Attachment E: Model Organization Certificate for an Edge Corporation
- Attachment F: Notification to Establish a Domestic Branch of an Edge Corporation
- Attachment G: Application to Amend Articles of Association of an Edge Corporation
- Attachment H: Application to Invest in Other Foreign Organizations or to Engage in New Foreign Activities for Member Banks, Edge or Agreement Corporations, and BHCs
- Attachment I: Notification to Invest in Other Foreign Organizations for Member Banks, Edge or Agreement Corporations, and BHCs
- Attachment J: Application to Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations
- Attachment K: Notification to Establish an Export Trading Company

The Federal Reserve requires these applications for regulatory and supervisory purposes and to allow the Federal Reserve to fulfill its statutory obligations under the Federal Reserve Act and the Bank Holding Company Act of 1956. The applications are event-generated and provide the Federal Reserve with information necessary to evaluate each of the proposed transactions. The

¹References to Edge corporations below are inclusive of agreement corporations. An agreement corporation is a corporation that has entered into an agreement with the Board that it will not exercise any power that is impermissible for an Edge corporation.

estimated total annual reporting burden is 772 hours. A copy of the reporting form and instructions, marked to show the revisions, is attached.

Background and Justification

Sections 25 and 25A of the Federal Reserve Act (FRA) and sections 4(c)(13) and 4(c)(14) of the Bank Holding Company Act (BHCA) govern the formation of Edge corporations and the international and foreign activities of U.S. banking organizations, including those of national banks, state member banks, Edge corporations, and BHCs. Section 25 of the FRA authorizes the establishment of foreign branches and investments in foreign banks in accordance with regulations prescribed by the Board. Section 25A of the FRA authorizes the establishment of Edge corporations and empowers these corporations to engage in activities both in the United States and abroad. Section 4(c)(13) of the BHCA authorizes BHCs to invest in companies that do business abroad. Section 4(c)(14) of the BHCA authorizes BHCs to invest in export trading companies.

Pursuant to these statutory provisions, the Federal Reserve adopted various regulatory provisions, all of which were consolidated in the Federal Reserve's Regulation K, setting forth the procedures for making investments and engaging in activities under these statutes. These procedures include (1) a specific consent procedure, under which the banking organization may make the proposed investment or engage in the proposed activity only after receiving the Federal Reserve Board's prior approval; (2) a notification procedure, under which the banking organization may make an investment after having given appropriate notice to the Federal Reserve Board; and (3) a general consent procedure, under which the banking organization may make certain investments that may be subsequently reviewed during the examination process.

The various attachments to the FR K-1 instructions specify the information that must be submitted to the Federal Reserve to enable it to act on the Regulation K applications and prior notifications. The information required in the instructions pertains only to the specific investment or activity proposed. The Federal Reserve supplements the information required in the FR K-1 with information on the banking organization obtained through examinations and other reporting requirements. The information reported on the FR K-1 is not available from any other source.

Description of Information Collection

A general description of each attachment is provided below.

Foreign Branches (Attachments A and B)

The Notification to Establish Initial Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries or Application for Branches to Engage in New Activities (Attachment A) requires information needed to assess the purpose of the branch, its location, its proposed activities, projected growth, management, country exposure and capitalization.

The Notification to Establish Additional Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries (Attachment B) is used if the applicant has branches in two or more countries and wishes to establish a branch in an additional country. The notification only calls for a description of the activities of the proposed branch and the branch's projected asset size at the end of the third year of operation.

Proposed revisions

Attachment A, Item 11, and Attachment B, Item 5, would be slightly modified by removing the parenthetical statement about operations of the branch and adding the words “assets and liabilities” in order to improve clarity and more accurately reflect what information the U.S. banking organization should provide.

Edge Corporations (Attachments C, D, E, F, and G)

The Application to Establish, Acquire, or Change Control of an Edge Corporation or for an Edge Corporation to Engage in Certain Domestic Activities (Attachment C) requires slightly different information for each type of transaction. The application requires information on the proposed activities, proposed management, ability to serve the convenience and needs of the community, any related requests for investment authority, and projected balance sheets and income statements.

The application for Edge Corporations to Engage in Domestic Activities not Listed in Regulation K requires information on the proposed activities, any related requests for investment authority, the ability to serve the convenience and needs of the community, and projected balance sheets and income statements. Foreign organizations that are seeking to either establish or acquire control of an existing Edge corporation also must furnish information relating to the home country supervision and regulation of the foreign organization, as well as information to determine whether the Federal Reserve will have adequate access to information. The notification for change in control of an Edge corporation requires much of the same information that is needed in an application to establish an Edge corporation.

The application to establish an Edge corporation requires submission of the Model Articles of Association for an Edge Corporation (Attachment D) and the executed Model Organization Certificate for an Edge Corporation (Attachment E), as prescribed by section 25A of the FRA.

The Notification to Establish a Domestic Branch of an Edge Corporation (Attachment F) requires minimal data to assess the purpose of the branch, its location and ability to serve the convenience and needs of the community, any amended articles of association, and the projected asset size of the branch at the end of the third year of operations.

The Application to Amend Articles of Association of an Edge Corporation (Attachment G) requires the Edge corporation to submit an executed and dated certificate of amendment to the existing articles of association and a statement describing the reasons for the requested changes.

Proposed revisions

Attachment C, Item 7.a would be modified to remove the existing parenthetical about Edge corporation capitalization, which is considered no longer necessary. Attachment C, Item 9, would be modified to remove the word “banking” from the first line to reflect the fact that the item should be submitted by all foreign institutions, not just foreign banking institutions.

Investments in Other Foreign Organizations (Attachments H and I)

The Application to Invest in Other Foreign Organizations or to Engage in New Foreign Activities for Member Banks, Edge or Agreement Corporations, and BHCs (Attachment H) requires slightly different information for each type of transaction. For applications to invest in other foreign organizations, a description of the proposed investment, financial information, country exposure information, and information on compliance with foreign requirements must be included. Additional information is required for investments in joint ventures.

For applications to engage in foreign activities not previously determined to be permissible, required information includes a full description of the proposed activities, financial information, and information on compliance with foreign requirements. Additional information is required for investments in joint ventures. Applicants seeking to engage in any activity that the Board has not previously determined to be of a banking or financial nature must discuss the extent to which such activity is usual in connection with the transaction of banking or other financial operations in the country in which the activity is to be conducted, supported by examples.

Investments that do not meet the criteria either for specific consent or for general consent, as detailed in section 211.9 of Regulation K (12 CFR 211.9), require prior notification. The Notification to Invest in Other Foreign Organizations for Member Banks, Edge or Agreement Corporations, and BHCs (Attachment I) requires information on the name and location of the investment, the amount of investment and percentage of ownership as a result of the investment, a description of proposed activities, abbreviated financial statements and, for joint ventures, the ownership structure and managerial support provided by the investor.

Proposed revisions

Attachments H and I would be modified to add a footnote to clarify that the form should not be used for investments made by a BHC using financial holding company authority. The Federal Reserve also proposes to correct the Regulation K section citations at the top of Attachment H to accurately reflect when the form should be used.

The Federal Reserve proposes revising Attachments H and I by adding a new question related to the Federal Reserve's access to information. This new question requests the same information for foreign investments that is currently requested for foreign branches and is considered necessary in evaluating proposals.

**Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations
(Attachment J)**

The Application to Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations (Attachment J) requires the information set forth in section 211.5 of Regulation K. As a result of the enactment of The Economic Growth and Regulatory Paperwork Reduction Act of 1996, which amended the FRA, member banks may invest over 10 percent and up to 20 percent of their capital and surplus in Edge corporation subsidiaries, provided the Board determines that such investments are not unsafe and unsound. No substantive changes to the form are proposed.

Investment in Export Trading Companies (Attachment K)

The Notification to Establish an Export Trading Company (Attachment K) is essentially a modified version of Attachment H. It requires a more brief description of the proposed investment, financial information, and additional information for investments in joint ventures. No changes to the form are proposed.

Time Schedule for Information Collection

The FR K-1 information collections are submitted by the applying or notifying organization, in accordance with the requirements embodied in Regulation K, to the Federal Reserve Bank designated as responsible for that banking organization. Reserve Bank staff notifies the organization of receipt of an application or notification and the official processing period (60 days for applications and 30 or 12 days for notifications) begins. Reserve Bank staff also sends the application or notification to the Board for review. An applying organization is notified by letter of the Board's decision regarding its application. In the case of a notification, the regulation indicates that the organization may make its investment at the end of the notification period unless the Federal Reserve notifies it otherwise. Information from the FR K-1 is not published.

Legal Status

The Board's Legal Division has determined that this collection of information is mandatory under sections 25 and 25A of the Federal Reserve Act (12 U.S.C. 601-604(a) and 611-631), and sections 4(c)(13), 4(c)(14), and 5(c) of the Bank Holding Company Act (12 U.S.C. 1843(c)(13), 1843(c)(14) and 1844(c)). The applying organization has the opportunity to request confidentiality for information that it believes will qualify for an FOIA exemption.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Estimate of Respondent Burden

The annual reporting burden for the Regulation K requirements is estimated to be 772 hours. The burden estimate, shown in the following table, is based on the average number of applications and notifications filed during the last three years. The number of applications and notifications has been adjusted upward to reflect actual experience over the last several years. The Federal Reserve believes the proposed revisions would have no affect on the estimated average hours per response. This represents less than 1 percent of the total System burden for all Federal Reserve information collections.

<i>Attachments</i>	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
A, B	7	1.2	11.5	97
C, D, E, F G	9	1	10	90
H, I	23	1.5	15.5	535
J	3	1	10	30
K	1	1	20	<u>20</u>
<i>Total</i>	43			772

Based on an hourly rate of \$50, the annual cost to the public is estimated to be \$38,600. Applications and notifications filed pursuant to Regulation K generally are worked on by attorneys and high level business and financial personnel at banking organizations. Thus, a cost estimate of \$50 per hour is used.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The information submitted in the FR K-1 applications and notifications is not automated. The cost to the Federal Reserve System of printing and mailing instructions is negligible.